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THE PHYSICS

AND

METAPHYSICS OF MONEY

WITH

A SKETCH OF EVENTS RELATING TO MONEY IN THE EARLY HISTORY OF CALIFORNIA

BY

RODMOND GIBBONS

NEW YORK & LONDON
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INTRODUCTION.

The design of this essay is to examine some prevailing misconceptions and misuses of terms used in discussions of monetary topics, and to show the importance of the monetary history of California as tending to clear up such misconceptions, and as furnishing tests by which to measure and judge much of the so-called economic philosophy which readily passes current, at present, in this country. The purpose in view is to aid in simplifying vexed questions relating to money.

THE PHYSICS AND METAPHYSICS OF MONEY.

CHAPTER I.

"WHEN the Chiel wha listens dinna ken what the Chiel wha 's talkin' means, and the Chiel wha 's talkin' dinna ken what she means hersel'—that 's *Metaphees-ics,*" said the canny Scot who was asked to define the term. This is an apt definition of the metaphysics of money, at least, for it is impossible for any one who listens to make sense of it; and it is fair to assume that those whom no one else can understand do not understand themselves. Unfortunately, much of what has been published about money partakes largely of *Metapheesics*, and the more those unversed in logic or the science of trade read such literature the more they become mystified. This is why the subject of money is not more generally understood.

It seems reasonable to assume that a man need not be much of a logician, or know much about trade, to understand that money pertains wholly to physical things and earthly affairs, and that it is folly to discuss matters relating to it from supernatural premises, or to

ignore mathematics, natural philosophy, and the laws of trade in such discussion ; but of all the errors that ever misguided the conduct of men, errors of superstition are the most difficult to overcome, and this kind of error is encountered at the very threshold of the money question. The "double-standard" fallacy, for example, is a higher law in the minds of many scholarly men than the axioms of Euclid, the logic of Aristotle, or the dictates of experience. These scholarly men have been reminded, times without number, that *singleness* and *fixity* constitute the very essence of a *standard ;* that "double standard" is as much of a solecism as "double single"; that it implies one and one do not make two, and that things which are not equal to the same thing may be equal to one another : yet they ignore these self-evident truths. Such is the power of superstition ; and it may be useful to trace this double-single one to its source, and to repeat a part of its history.

The supernatural idea of a "double standard" belongs properly to a period when it was customary for men to regulate their daily affairs by signs in the zodiac—when credulity and superstition were governing forces in their public economy. It is based upon the belief that the Creator, having designed both gold and silver to be used as money, in his infinite wisdom so distributed these precious metals in the bowels of the earth and the sands of the rivers and the sea that it would always require the same relative amount of

labor to develop them ; and that it was only necessary for mankind to discover the divinely ordained relation between the two metals to enable them to fix a ratio in weight between them and secure a double money-measure for values.

It was this lingering superstition which caused the Congress of the United States to persist for sixty years (from 1793 to 1853) in the fruitless effort to make gold dollars and silver dollars constantly measure the same in exchanges, and the effort was not abandoned until thirty-seven years after England had outgrown the superstition. Up to 1853 the silver coinage of our mints exceeded seventy million dollars, but it had so nearly disappeared from circulation that there was a silver-coin famine when the coinage act of that year was passed. Under this act no silver was coined except on government account ; no dollars were coined for circulation ; the fractional silver coin was depreciated in weight sufficiently to place it beyond the influence of fluctuations in the bullion market ; its coinage was regulated by business demands ; its legal tender was limited to sums of five dollars, and thus it was made subsidiary to gold. It was by this means that silver, though metaphysically "demonetized" by the Coinage Act of 1853, was physically monetized, in the United States, for the first time—that is to say, it entered largely into use as money ; the nominal dollar of fractional silver became a coefficient measure with gold in the infinitude of

small transactions, and the silver money was not liable, as it had been, to sudden withdrawal from circulation.

It suits "Bimetallists" to affirm that silver was not "demonetized" in the United States until 1873; but they are confronted by the facts that the "double-standard" nonsense was abandoned in 1853, and that the Coinage Act of 1873, outside of its provision for trade dollars, only confirmed by statute the conditions and usages which existed before the war of secession. The "dollar of the fathers" had long been physically demonetized by the high price of silver, so it was stricken from the list of coins; the recognized "unit of value" was the gold dollar, and it was so ordained to be; the subsidiary silver coin (then circulating only on the Pacific slope) remained a legal tender for five dollars; and the double-standard idea, dead for twenty years, received an obituary notice by act of Congress.

CHAPTER II.

THE metaphysics of money has been much amplified by the addition to its vocabulary of the newly invented term "Bimetallism" and its intended antithetical mate "Monometallism," which are extensively used by those who call themselves "Bimetallists." The meaning of these terms has not yet been explained, although both may be found in the *Supple-*

ment to *Webster*. Here "Bimetallism" is defined as "The legalized use of two metals in the currency of a country, at a fixed relative value." As fixing the relative *value* of two metals would involve the miracle of making a given quantity of one metal constantly and inherently equal in purchasing power to a given quantity of another metal, the definition is simply a repetition of the "double standard" idea. If it were to read: "The legalized use of two metals in the currency of a country at a relative *nominal* value," it would express what has been done; but, while such an amended definition might please "Bimetallists" who own stock in silver mines, it would not satisfy those who rely upon the divinely ordained value-relation between silver and gold.

"Monometallism" is rendered: "The use of one metal as the standard of money. *Opposed to bimetallism.*" As in the technology of minting "standard" refers exclusively to the *fineness* of metal and the *weight* of coins, and as all commercial countries use more than one kind of metal for money, the first division of the above definition is decidedly *metapheesical.* The second division, however, is correct, as far as it goes, for no matter what a "Bimetallist" asserts, he calls all who oppose him "Monometallists."

In the *Fortnightly Review* of July, 1881, Emile de Laveleye published a long essay on "Bimetallism and Free Trade," wherein he premised that "Bimetallism"

was ordained by the Creator (the old superstition), but he also assumes that it was "invented" by Sir Isaac Newton. This essay is one of the many which justifies the Scotch definition of *Metapheesics.* In England, the Right Hon. Viscount Sherbrooke set seriously to work to ascertain the meaning of "Bimetallism," and in a contribution to the *Nineteenth Century* of April, 1882, he declared his inability to do so. Observant men who lived at San Francisco, during the "bonanza times" understand the origin and growth of "Bimetallism," but they are as much in the dark as others concerning the principles and methods by which its professors are to assimilate two distinct metals with one unvarying measure. They understand that "Bimetallism" is the outgrowth of the silver-mining interest, and that it is a mental disorder, the spread of which has been coextensive with the distribution of silver-mining stock. In California one type of the disorder was called, in homely phrase, "silver on the brain"; but "Bimetallism" is the preferred term for the metaphysics of money. A remarkable symptom of the disorder is observable in nearly all "Bimetallists" who write or make speeches upon the subject of silver, including men who are unquestionably honest. With one accord they affirm and insist that all the followers of Locke and Liverpool who reject the superstition of a "double-standard" measure want to *proscribe* the use of silver as money; and for this falsehood (it can be called noth-

ing else) there can be no excuse except the charitable one that those who utter it are not responsible for what they say. One illustration of this is sufficient. At a meeting of prominent "Bimetallists," held at the India House, London, November, 1881, the proceedings of which were published in the *Bullionist*, the Chairman, in his opening address, said: "The question we have to deal with is not so complicated as some people suppose. It is simply this: Can silver be eliminated from use as currency, in Europe and America, without enormously increasing the value of gold and depreciating the value of silver?" It was here assumed that those who reject the superstition of a "double-standard" measure desire to eliminate silver from use as currency in Europe and in the United States. It may fairly be said that none but "Bimetallists" would meet to discuss a question based on an assumption so utterly false; and, considering the high character and eminent standing of those who did so, they cannot be accused of conscious mendacity. The conclusion must be that "Bimetallism," in their case, meant a severe type of mental disorder upon the subject of money. But, notwithstanding their mental disorder, it may be said of European "Bimetallists" that, in all their vagaries about assimilating two distinct metals to one unvarying value measure, they have adhered to the idea of an honest ratio.

CHAPTER III.

"BIMETALLISTS" in the United States are not entitled to as much consideration as are those of Europe. Nearly all of the former are now advocating the perpetuation of the so-called "Bland Silver Act" of 1878. The ideal "double standard" which our fathers vainly pursued for threescore years, and which Germany and the states of the Latin Union thought they had found, was based, as before said, on a supposed law of creation, and was free from the taint of dishonesty. It was designed that there should always be "a dollar's worth of silver in a silver dollar"—that the gold and the silver dollars should start even, and measure the same, in domestic transactions at least, continuously and by reason of their inherent properties; whereas, the silver dollar of the Bland Act contained less than ninety cents' worth of silver at the beginning, and was made a legal tender coequally with the gold dollar. The claim that the Bland Act "restored the dollar of the fathers" was, therefore a defamation of the memory of the fathers, as the legend upon the dishonest coin was a desecration of the name of God. The enactment cannot be associated with the supernatural yet honest idea of a "double-standard" measure, nor is there a case recorded in monetary history of making a full legal tender of a *short measure coin* which has not been the cause of national calamity, for "with

the same measure that ye mete withal it shall be measured to you again." It would be wrong, however, to charge with dishonesty all who were responsible for the enactment of 1878 and all who are striving to perpetuate it. It is impossible to know how far self-interest or the pride of opinion may warp the minds of honest men; how far a conscientious but mistaken sense of duty may influence the average Congressman in subordinating his judgment to the clamor of a misguided constituency; or how many of our native "Bimetallists" are, like the ruling spirits at the London meeting, afflicted with a type of mental disorder which deprives them of the power to distinguish between fact and falsehood in questions relating to the one subject of money. But, after making the best apology we can for those who were responsible for the Bland Silver Act, and for the honest men who support it now, the act itself must stand on its chosen ground, of *denying measure for measure.* There is no uncondemned precedent, no received philosophy, no modern school of economics, no recognized code of ethics, no usage of business, no arithmetic, no system of book-keeping, *no intelligent business man,* to justify the coinage of a short legal-tender dollar, yet the advocacy of this wrong is the chief mission of "Bimetallism" in the United States. To a few of our "Bimetallists," including one ex-President and two ex-Secretaries of the Treasury, must be conceded the questionable credit of having

advocated putting "a dollar's worth of silver in a silver dollar." Without dwelling on the fact that this proposition is, in itself, an acknowledgment of the *singleness* of the gold-dollar-standard measure, let us contemplate what would have been the result of following the advice of these eminent "Bimetallists." If the weight of the silver dollar had been adjusted to "a dollar's worth," by only an annual average of the price of silver bullion, we should now have had eight distinct issues of legal-tender silver dollars, each varying from the others in weight and inherent purchasing power, and these, with the gold dollar, would have made, in the metaphysics of money, nine standards in one and one in nine—*a novenary standard*, as it might have been called. In spiritual affairs we can understand how the doctrine of the Trinity is accepted by the Christian world, through faith in revelation; but in matters relating to gold and silver coin the world of trade, including all religions, rests its faith upon the assayer's scales.

CHAPTER IV.

THE metaphysical use of the terms "monetize" and "demonetize" commands more notice than I have given it. These terms are suggestive of the question, "What is money?" "Money," said Aristotle, "makes all things commensurable, for all things are

measured by money." For the purpose of this writing I will define money as *Any thing which is agreed upon among a people as an exchangeable measure of values.* An agreement is the condition precedent of exchange; what passes current in exchange as a measure of value is money, and no statute of any government can monetize what people do not agree to accept in exchange as an equivalent measure of values, nor can any thing be *domonetized* by statute which the people can command use of and *accept* by common agreement as an exchangeable measure of value. Granting that a government can arbitrarily prescribe a false measure of values as a legal tender in payment of debts, in the absence of contract obligations to the contrary, yet no statute can be devised that would enable any person in the United States who has stipulated to pay gold dollars, for value received, to liquidate his indebtedness with legal-tender paper or silver dollars which would be subject to a *discount* in exchange for gold dollars. These are truths belonging to the physics of money.

The etymological sense of "monetize" and "demonetize" is unmistakable, but it can hardly be expected that "Bimetallists," who ignore the axioms of mathematics, logic, and natural philosophy, are to be trammelled by etymology. For example: They all assert that silver was demonetized by Germany in 1877, when the government of that empire gave up the pursuit of the "double-standard" *ignis fatuus;*

yet the physical truth is that in Germany about a hundred million dollars' worth of silver coin is in active circulation, and it is the money of the people in the infinitude of their small transactions to a much greater relative extent than it is in the United States.

CHAPTER V.

In view of the impending crisis in monetary affairs, growing out of the so-called "Bland Silver Act," threatening calamity to every branch of industry and to every department of business in the United States, it is important that the subject of money should be better understood by the many who are capable of understanding it, but who shrink from giving it their serious attention because of its complications. It is my aim to aid this class of men in acquiring a sufficient understanding of the subject of money to enable them to co-operate intelligently in promoting what may be necessary to avert the disaster of a general disturbance in values, and if they will set reasonably to work about it they will find the undertaking less difficult than is generally supposed.

At the outset they should distinguish between the physics and the metaphysics of money, and discard the latter entirely. They should fall back on the axioms of mathematics, logic, and natural philosophy, and adopt the logical method of summarily reject-

ing every proposition which conflicts with an axiom. Since the term "double standard" is a solecism, conflicting with axioms of mathematics, it is a waste of time to study essays upon it or to engage in controversy upon the subject of money with men who assume there ever was or ever can be such a thing. Life is too short. Since "Bimetallism" is indefinite and "Monometallism" is expressive of what does not exist except in the minds of those who have "silver on the brain," the use of these terms is in conflict with axioms of logic, and they should be stricken from the vocabulary of reason. Since the terms "monetize" and "demonetize," with their derivatives, are much used, even by some occupants of professorial chairs, in a way contradictory of physical facts relating to the use of silver as money (as before noted), and this being in conflict with a *self-evident principle*, it should serve as a warning to students of economics against allowing themselves to be mystified by the cathedral misuse of simple terms.

Since much of the current literature on the subject of money contains frequent reference to the use of gold or silver as a "standard of value," to the mystification of many readers, it should be borne in mind that "standard," in the physics of money, applies only to the fineness of metal, to the weight of coin, and to the *measure* of value; that *value*, in the world of exchanges, can only be determined by the agreement of two or more persons; and, hence, that "a

standard of value" in the above connection must be as incomprehensible to those who write about it as to those who read about it, notwithstanding the Governor of the Bank of England belongs to the former class.

CHAPTER VI.

It was the Marquis de Lafayette who induced Friederich List, the great German economist, to emigrate to the United States in 1825. Before leaving Europe, List wrote the Marquis in substance as follows: "I shall leave my books behind me. They will be of no use to me in a country where *events* are following each other so rapidly in the development of an empire of trade and civilization."

Since the organization of our government, important events relating to money have followed each other in the United States more rapidly than elsewhere, particularly during the last thirty-seven years; and the instruction derivable from these events is more than sufficient to enable men of ordinary business intelligence to distinguish between the physics and the metaphysics of money, and to co-operate intelligently in averting the threatening calamity of a general disturbance of values, as before mentioned.

During the early development of river and placer mining in California, gold, as it was collected, was

the principal money of exchange throughout the mining districts. Miners purchased most of their supplies with gold dust, weighed by rude balances, and in many small transactions outside of the stores the thumb-and-finger pinch-measure, with critical supervision, was frequently resorted to. A discrimination was made between "river dust," "placer dust," "retort dust" (pulverized amalgam), "nugget gold," and "specimens," and store-keepers became skilled in using the magnet and their breath in separating the black sand from the dust before weighing and in judging the purity of gold.

Gold and silver coins from most of the world's mints circulated in trade but scantily. The United States and Spanish-American coins were best known, and the supply of these was insufficient to meet the demands of the gambling tents. The deficit was supplied chiefly by gold dust. In many cases it was necessary to guess at the value of European gold coins. All silver coins approximating the diameter of dimes passed as coefficients of dimes under the common name of "bits"; all near the diameter of a quarter of a dollar passed as twenty-five cents, under the common name of "two bits"; those near the size of a half dollar passed as its coefficient (in purchasing power) under the common name of "four bits," and in transactions involving the division of "two bits," in making change; the proportion of ten cents was called the "short bit," and the fifteen cents balance

was called the "long bit." This was the nearest "change" that could be made, as *one-cent* tokens were not used, and all silver coins smaller than a "bit" were rated as five-cent measures.

At San Francisco, during the same period, gold dust was exchangeable for coin, and coins of gold and of silver in all varieties, which purchasers of gold dust could most advantageously import and which immigrants brought in their pockets from all civilized countries, constituted the principal money of the people. The value measure of gold coins was estimated with more accuracy than in the mining districts, but that of silver was not, except at the banks. No merchant refused India rupees as equivalents of half dollars. Several private assaying and gold-coining establishments sprang up at San Francisco, and one at Salt Lake City, to meet the exigencies of the Pacific coast trade. The Mormon coins of nominal five- and ten-dollar pieces, and those of similar denomination issued by two or three concerns at San Francisco, were *bankable* at face value, although none conformed to the government standard of fineness, and only those of one establishment contained a full measure of fine gold.

In 1851 the government established an assay office at San Francisco which coined the octagonal fifty-dollar ingots commonly called "slugs." Each piece contained a fifty-dollar measure of gold, stamped with the government certificate of its weight and fineness.

The "Pioneers," who kept no bank account, complained that the "confounded things" wore out their pockets; but they were a great convenience to trade, and served as the principal money in large transactions for many months.

The issue of the fifty-dollar gold ingots (which was followed by that of twenty-dollar ingots), stamped with the government certificate of weight and fineness, was recognized as the signal for ceasing *guess work* in the valuation of gold dust, of foreign gold coins, and of the nominal five- and ten-dollar pieces from private assaying establishments. Hence, all the last-named pieces disappeared from circulation, except those of once concern (Moffatt & Co.), which contained a full measure of gold; and foreign gold coins were made subject to a tabulation of measures established by bankers and brokers. In 1854 the branch mint was established at San Francisco, and as the supply of double eagles, eagles, half eagles, quarter eagles, and three-dollar pieces grew commensurate with the demand, all other forms of gold, except assayed bars, fell into disuse *as money*. The gold dollar, although an inconvenient coin, was extensively used as "pocket money," in place of the light-weight and the "bogus" *four-bit* pieces and nominal silver dollars, before the benefit of the Coinage Act of 1853 was much felt in California.

During the silver-coin famine of 1852–3 counterfeits of United States and Spanish-American silver

coin, *known to be counterfeits*, passed freely over the counters at the restaurants, the saloons, and the cigar stands of San Francisco ; and this, be it noted, was when nearly the entire population depended on the restaurants for their food The counterfeits were not of the vulgar type, such as are cast in moulds, with lead or fusible metal, but they of the kind that were made from some hard composition resembling the color of silver and stamped, or "struck up" from brass and electroplated with silver. Most of the latter were of Spanish-American origin, and somewhat worn by use. This evidence of former use invested them with comparative respectability, as it indicated that they were not being manufactured for the occasion. Yet the evidence of use had its limit of tolerance, and pieces which had lost so much of their superficial covering of silver as to show the brass at ten yards' range, or to *smell* of brass, were not respectable. The amount of counterfeit silver coin in active circulation at San Francisco alone at the time referred to represented many thousand nominal dollars, yet I do not remember that there ever was a suspicion that any portion of it was manufactured in California, or that any person in the State was ever suspected of engaging in the specicl business of importing it. Moreover, as there was no paper money in circulation, no nickel or copper coins, every man was supposed to be a good judge of silver, even in the dark ; and in the free interchange of counterfeit

coins no man was suspected of trying to deceive another. It was simply a matter of economics. At no other place on the face of the earth was *time* so valuable as at the mart of the "New El Dorado." Hence, while there was an abundant supply of fine "gold dust," the value of which was well known, and which was divisible by weight into small-value measures; and while everyone knew that the use of the counterfeit silver involved, in the near future, a total loss to the holders, the counterfeits of silver were used as money to supplement the deficiency of silver coin, in preference to small-value measures of gold dust in the frequently recurring small transactions incident to eating, drinking, and smoking, because it saved *time.* It was not until after the Coinage Act of 1853, by which silver was monetized in the United States, as described, that the people of San Francisco (where the conditions excluded the use of shin-plasters) enjoyed a better circulating medium of exchange than the multiform "bits," "two bits" and "four bits," in their "small-change" transactions.

The discovery of the "Comstock lode" in 1859, and the suspension of specie payments in 1861 by the banks of the Atlantic States and by the United States Government, and the establishment of a branch mint at Carson City, caused trade on the Pacific slope to be literally loaded with subsidiary silver coin, and the contrast between the situation then and that of the silver-famine time was of much interest to

those who witnessed both. The "free coinage" of trade dollars, authorized by the act of 1873, was to meet an export demand, as is generally known. It was not designed or contemplated by Congress that this act should change the order of things established by the act of 1853, which prohibited the free coinage of silver for home use; but, by the inadvertence of those who supervised the framing of the act, the trade dollar was listed as *a United States coin*, and was made a legal tender in sums of five dollars. Hence, in the winter of 1875–6, when the market value of silver bullion fell to a point which made trade dollars short of dollar measures, and they no longer commanded a market for remittances to China, silver bullion was sent by truck-loads to the mint, converted into these hybrid ingot-coins, and San Francisco was flooded with them. The people thoughtlessly accepted them, at first, in preference to subsidiary coin, partly because they contained thirty-six grains more silver to the nominal dollar-measure, and partly because they were new. But when they became plentiful it was found that they were much less convenient than the fractional silver coin—they could not be put up in rolls or "cartridges," and thus piled snugly in a safe; exchanged in sums of ten or twenty dollars, without recounting; carried conveniently in the hand, or put in one's pocket and taken out again without trouble; and as loose pocket change they were a nuisance. Consequently, their

comparative popularity was brief, and there grew a prejudice against them. Then thoughtful men began to consult with each other concerning what might be expected from the continued free coinage of trade dollars, and before much of this new coin lost its sheen all of it disappeared from circulation.

In the language of physics it is proper to say that trade dollars were extensively monetized and afterwards entirely demonetized in California during the winter and early spring of 1875–6. At this time fractional silver coin was at a broker's discount of five per cent. The banks refused to receive more than five dollars of it (the legal-tender limit) in any one deposit, except on silver account, payable in kind. The merchants were less particular. They generally would accept all silver in payment of bills not exceeding $20, and $50 in silver, without demur, on bills of $500, from those who were not suspected of buying silver for the purpose of using it in paying bills, and such a proceeding as this was a violation of business ethics. In the case of the trade dollars a sense of danger concerning them was communicated from one person to another until, notwithstanding their legal-tender quality was the same as the fractional silver, and notwithstanding they contained thirty-six grains more silver than the nominal dollar, merchants refused to have any thing to do with them. Thus they were forced into the hands of brokers at a discount greater than that of the fractional coin, and sufficient

to excite the cupidity of the San Francisco Chinese Companies, who "scooped them in" and shipped them to China.

It is commonly received as an historical fact that the people of California "refused to adopt the national currency" during the war of secession. Their adherence to the gold-value-measure was censured as unpatriotic by many persons at the East, and by some it was denounced as disloyal.

The first legal-tender treasury notes were issued in March, 1862, and the national-bank system was established by acts of Congress, February, 1863, and June, 1864. It is generally known that prior to 1862 the people of California had so far improved the opportunities presented by the natural productive forces of that region that an important empire of industry and commerce was established. In the essential factor of money, the multiplicity of temporary coefficients for dollars had been "panned out," as miners say, and United States coin and assayed gold bars constituted their only money. As gold in one form or another had always been the principal money of the people, the expression of values became so firmly set in gold there was but one way of changing it, and consequently but one way the people of California could have conducted their business on any other than the gold basis of valuations—this was to stop gold mining. It was within the power of the national government to suppress gold mining, so far as to stop work on all non-

paying mines and to prevent the opening of new mines. Had this power been exercised, gold would have ceased to be the principal money in California before many changes of the moon; the expression of prices and values would have changed from gold to silver measures; from silver to the national-currency measures; and, after being baptized in bankruptcy, the people would have conducted their business on the last-named fluctuating basis.

Strange as it may now appear, Congress hit upon this possible method of subjugating the people of California to the monetary system of the national government. In May, 1864, a bill to tax the *gross products* of the mines was rushed through the lower House. Its appropriate title would have been "*A bill to suppress gold and silver mining in the United States.*" By the time the fact could be made known by telegraph at San Francisco, the bill was pending in the Senate, with an evident majority in its favor. It was a critical juncture in the monetary history of California, and a critical one for the national treasury. A memorial from the San Francisco Chamber of Commerce was telegraphed to Congress and read to the Senate. Senators candidly admitted their previous misunderstanding of the situation, and the bill was defeated.

The animosity of Congress toward California for adhering to the standard value-measure was marvellous to the people of that State, who felt themselves governed by laws of trade which they could not evade,

and which no action of Congress, short of killing the goose that laid the golden egg, could control.

After the legal-tender enactments the business men of California were obliged, for self-protection, to have printed on their billheads, "Terms: Payable in United States gold coin or its equivalent"; and all promissory notes were drawn "payable in United States gold coin."* Treasury notes were used to pay Eastern freights and government dues (except customs); but, during the many years they were below par, they were not monetized in the domestic trade of California and adjacent States, for the reason that the people would not agree to accept them as an exchangeable measure for values.

CHAPTER VII.

In the Atlantic States, for years preceding the war of secession, while business was conducted on the basis of gold measure, the ideal dollar of account embraced "bankable funds," which included the paper money of State banks, and bank notes constituted the principal money of the people, in transactions larger than five dollars; but of gold, with securities that would command gold, there was an abundance in the vaults of the banks of the Northern Atlantic States, at least, to make their

* The custom respecting promissory notes still prevails in California; that respecting "Terms," on billheads, was partially abandoned after treasury notes became par, but it is coming in vogue again.

notes good. During the thirteen years next preceding the war, California had been taxing the machinery of the mints ; the gold coinage of 1861 exceeded $60,000,000 ; the net import of gold from Europe that year was $14,800,000, and there was nothing to interrupt the periodical and phenomenal shipments of gold from San Francisco to New York.

Soon after the beginning of the war, the government needed money and the Secretary of the Treasury invited representatives of the New York, Philadelphia, and Boston banks to confer with him. The result was an association of the banks of the three cities in making three gold loans to the government of $50,000,000 each—the first bearing date August 19th, the second October 1st, and the third November 16, 1861. Contrary to the advice of the representative bankers and business men of the three great cities, the Secretary of the Treasury persisted in disbursing gold, regardless of the methods which would have caused it to flow back to the bank vaults and to the national treasury. Hence, notwithstanding the abundance of gold, it became apparent to business intelligence that, if the Secretary of the Treasury should continue to draw gold, directly and indirectly, from the bank reserves, and to disburse it broadcast as he was doing, before the lapse of many weeks the treasury would be unable to obtain sufficient gold to meet its demand notes, and both the banks and the government would be obliged to suspend specie payments. To business intelligence, the ques-

tions of preserving the integrity of the great volume of bank notes constituting the principal money of the people and of sustaining the credit of the government were inseparable. To business intelligence, there was but one way to avoid the suspension of specie payments. This was the purely physical method of controlling the movement of gold by co-operative action between the government and the banks, to the end that the plentiful supply of gold, instead of being scattered and hidden away, should be made to gravitate back to the bank reserves, after being paid out on government and other demands.

The associated banks (after loaning the government $150,000,000) offered to act co-operatively as the fiscal agents of the treasury and to sustain the national credit through the ordeal of war, with their ample gold reserves, by cashing the treasury demand notes over their counters, *provided they should not be made redeemable elsewhere.*

These banks had most of the deposit accounts at the three great marts, and nearly all the gold they would have paid out in cashing the demand notes, which was not wanted on foreign account, would have been redeposited in their several vaults or gone into the treasury through the custom-house. Thus, the laws and usages of trade afforded a surety to the banks that they could act co-operatively in sustaining the credit of the government and the integrity of their own notes without depleting their gold reserves ; and,

in view of the continuous supply of gold from California, they had reason to believe that their reserves would increase under such a course of procedure.

The Secretary of the Treasury, however, deemed it wise to reject the proposition of the associated banks, and to continue scattering, broadcast, the gold at his command. This made the suspension of specie payments inevitable, and the only question left for the banks to consider was, "Shall we suspend with an ample supply of gold in our vaults, or wait a few weeks until our vaults become empty?" They chose the first horn of the dilemma, and suspended specie payments December 28, 1861. Thus the treasury, whose secretary could not realize the situation until the banks suspended, was stranded on the same shoal, and the people of the Atlantic States were compelled to abandon the gold measure in the expression of prices, and to enter upon an era of domestic trade with a fluctuating measure for values.

The suspension of specie payments was made irrevocable for years, under the operation of the Gresham law, by the act authorizing the issue of short-measure legal-tender treasury notes, passed within three months afterward. The Gresham law was not felt in California, for obvious reasons, but in the Atlantic States, where paper currency, redeemable with gold, was the principal money, the people were at the mercy of this law, and never was there a more striking illustration of its force. In the twinkling of an eye, as it

were, gold coin disappeared from their domestic trade, and silver was not long in following.

In 1864, when the volume of legal-tender treasury notes represented the nominal sum of $432,000,000, they were at 60 per cent. discount, representing only $172,000,000 gold; and $1,000,000,000 is a common round estimate of the loss entailed upon the industrial and business classes east of the Sierra Nevada, to the enrichment of the speculative and the gambling classes, by the unnecessary abandonment of the standard measure for values.

CHAPTER VIII.

It is unnecessary for my purpose to traverse any more of the field covered by experience relating to money in the United States.

The reader has been reminded of the futile attempts of the "fathers" to make gold and silver dollars measure the same for any considerable time; and that it was by what most schoolmen would call "demonetization" that silver was physically monetized in the United States by the Coinage Act of 1853.

Sufficient has been recited to show the broad distinction, in physics, between the demonetization of this or that *metal*, and the demonetization of certain *forms* of one or the other, and to emphasize the truth, that coin may be as effectually demonetized by an excessive as by a deficient weight of material.

Events have been recalled showing that *under the same statutory laws*, both gold and silver coins were demonetized in the domestic trade of one section of the United States, for about seventeen years, while they remained monetized in another section ; that legal-tender treasury notes, which were rated nominally at par in the domestic trade of one section, were not monetized, for seventeen years, in the domestic trade of another, but were rated, at one time, at 60 per cent. discount ; and that the legal-tender enactments of Congress had but little more effect on the domestic trade of California and adjacent States than they had upon the trade of any foreign country.

It has been explained how, at one time, what constituted the principal money of the people in the mining districts of California, in small transactions, was not the principal money at San Francisco in small transactions ; and how counterfeit coins, known to be such, were partially monetized at the mart of the greatest gold-producing State.

It has been shown how, in California, both gold and silver were monetized in a multiplicity of *forms* relating to *measure*, and demonetized in all but a few, within a short period, without the aid or intervention of United States statutes, excepting the laws relating to assaying and coinage, and those which framed the policy of the government respecting the working and disposition of minerals lands ; and that, while the laws relating to legal tender, figuratively speaking, were not in sight,

the consideration of *convenience*, as exemplified in the narrative, was *a constantly operating force*.

Finally, be it observed that facts have been recited demonstrating the falsity of the despotic theory that money is "*a value created by law*"—a theory upon which the supporters of the "Bland Silver Act" rely in their defence of a short-measure legal-tender coin.

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